

Request
OLC #78-2446

United States Senate

June 27, 1978

Respectfully referred to:

Central Intelligence Agency
Legislative Counsel
Washington, D. C. 20505

IN REPLY, REFER TO #

Because of the desire of this office to be responsive to all inquiries and communications, your consideration of the attached is requested. Your findings and views, in duplicate form, along with return of the enclosure, will be appreciated by

TFE:ajb

THOMAS F. EAGLETON
U.S.S.

Form #2



METAL EXCHANGE CORPORATION
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June 16, 1978

Senator Thomas F. Eagleton
1213 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Eagleton:

Attached is a photocopy of an article that appeared in a recent issue of the Wall Street Journal. We are interested in obtaining a copy of the CIA report reviewed in the article. Would you be able to advise us where we might get a copy?

Will look forward to hearing from you. Thank you.

Yours truly,

METAL EXCHANGE CORPORATION

Irlene Caskey

Irlene Caskey

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Enc.

Commodities

China Still Sleeping Giant in Production Of Nonferrous Metals, CIA Report Finds

By SHIRLEY A. JACKEWICZ

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—China, which has been playing an increasing role in world commodity markets, is still a sleeping giant when it comes to producing nonferrous metals.

That is the conclusion of the U.S. Central Intelligence Agency, which recently issued a study of China's potential in nonferrous metals, which includes all metals but iron and steel.

China holds huge reserves of tin, tungsten and antimony, which are its main metal exports, according to this study. It also has large amounts of copper, zinc and aluminum, but it lacks some key alloying metals, such as cobalt, which are important in the iron and steel industry.

"Production of most metals (in the 1970s) has grown slowly despite the country's siz-

COMMODITY INDEXES

| | Close | Net Chg. | Yr. Ago |
|-----------------------------|--------|----------|---------|
| Dow Jones Futures | 350.14 | - 2.32 | 384.33 |
| Dow Jones Spot | 357.80 | - 0.85 | 411.78 |
| Reuter United Kingdom | 1523.0 | + 0.02 | 1616.9 |

able resource base," the CIA study says. Furthermore, while Chinese government leaders — notably Premier Hua Kuo-feng, who said last February that the country plans to build nine nonferrous metals complexes by 1985—have placed "renewed emphasis on advancing output, it is likely that progress will be slow," the report says.

The main reason for China's lackluster development in this area, according to the report, is that its technology and equipment, supplied largely by the Soviet Union in the 1950s, are badly outdated by Western standards. The Chinese "are very backward technologically," agrees one New York metals trader.

What's more, the CIA study notes that because new development is expected to be costly and time-consuming, "China will... remain dependent on imports of many vital metals well into the 1980s." In fact, China finds it cheaper to import metals than to produce them domestically, the study contends.

In the 1970-76 period, China's imports of nonferrous metals—valued at \$2.6 billion—were four times greater than its exports of those items in the same period. Major imports included copper, aluminum, nickel and lead, which together accounted for \$320 mil-

lion of the \$358 million of metals China imported in 1976.

According to the CIA study, "no single country stood out as the dominant partner in China's nonferrous trade" in 1976. Except for Chile and Peru, the country's major copper suppliers, only the U.S. and West Germany accounted for more than 5% of such trade that year. In 1976, the U.S. was the third largest supplier of metals to China, with sales of \$29 million. It also was the leading buyer from China, with \$16 million in purchases, notably of tin, tungsten and antimony, the report says.

However, the metals trader notes, the U.S. "started fairly late in metals dealings" with China; the Chinese, he says, have been known to deal with London nonferrous metals merchants instead. He also asserts that the Chinese "play very close to the vest" and "don't give any warning when they're going to be buyers or sellers" of metals. For political reasons, China avoided trade with the U.S. until recently.

Another dealer here calls the development of the Chinese nonferrous trade with the U.S. "a slow, grinding process" with "an awful lot of potential." Only a few years ago, he says, "We were very excited and enthusiastic about things having opened up" in political relations between the U.S. and China. But "it's been very disappointing in the lack of any real business," he asserts.

The CIA study says Peking has given the development of nonferrous metals production rather low priority in terms of new capital investment. Instead, it has emphasized agricultural development and directed its efforts toward the petroleum, transportation and chemical fertilizer industries.

The following observations on China's key nonferrous metals are made in the CIA report:

COPPER: Reserves are estimated at six million tons, an amount projected to last only 20 years and regarded as insufficient to support a significant expansion of domestic use. Further prospecting is likely to result in more copper-ore discoveries.

Still, the industry has stagnated, largely because new refinery capacity hasn't been added since the 1960s, although Peking currently is negotiating for the purchase of a

copper refinery. Production reached an estimated 300,000 tons in 1976, up only 10,000 tons from 1970. To meet growing demand at a time of slow domestic production, China has imported copper, taking in an average 120,000 tons annually during 1970-76. Chile and Peru together supplied more than one-half of such imports in 1976.

TIN: Reserves are especially huge, probably totaling 500,000 tons. Although yearly production jumped to about 30,000 tons in the late 1950s due to technical assistance from the Soviet Union, output has slipped since then. In 1976, it stood at 11,000 tons, of which 6,400 tons were exported. Tin sales to the U.S., a major importer, peaked in 1975, when shipments rose to 6,400 tons before dropping to 1,700 tons in 1976.

ALUMINUM: While reserves of ores also are large, ranging up to an estimated 360 million tons of recoverable aluminum, the ores are viewed as "uneconomic by Western standards." But production has grown rapidly—1976 output of 375,000 tons was double the 1970 level—due to capital investments in mining capacity to meet domestic demand.

Even so, China has had to import big quantities of aluminum to satisfy demand. Imports surged to 408,000 tons in 1975, making China one of the world's largest importers of the metal that year. Imports dropped, however, to 177,000 tons in 1976. Peking is expected to build some aluminum plants of its own, and it is said to be shopping for a modern aluminum plant in Japan and Western Europe.

TUNGSTEN: Estimated at about one million tons, China's reserves of this metal are the world's largest. Production of 11,900 tons in 1976, of which 6,100 tons were exported, stood 36% below the peak of 1973. The declining trend in output of tungsten, which is used mainly in light filaments, carbides and tool steels, has resulted for the most part from production problems in the steel industry. Otherwise, there is evidence that the most easily accessible ores already have been tapped.

ZINC: While estimates of reserves aren't available, they are believed to be large, and production totals about 125,000 tons yearly. Exports jumped to 7,800 tons in 1976 from only 300 tons in 1970, so that China is projected to become a net exporter of this metal in the years ahead.

ANTIMONY: China holds two million tons of ore, or about one-half of the world's reserves of this metal, which is used to harden other metals. Production has proven erratic during the past 30 years; in the 1970-76 period, it ranged from 5,000 tons to 10,600 tons a year, most of which was exported. Because both world use and domestic use aren't rising much, "little expansion is foreseen in the industry."

Open High Low Close Change Season's High Low

—GRAINS AND FEEDS—

| WHEAT (CBT)—5,000 bu.; cents per bu. | | | | | |
|--------------------------------------|--------|--------|--------|--------|-----------------|
| July | 32 1/4 | 32 5/8 | 31 3/4 | 31 7/8 | -7 1/2 to 6 1/2 |
| Sept | 32 1/2 | 32 7/8 | 31 3/4 | 31 1/2 | -7 1/2 to 8 1/4 |
| Dec | 32 3/4 | 33 1/4 | 32 3/4 | 32 3/4 | -7 1/2 to 8 1/4 |
| Mar 77 | 33 1/4 | 34 1/4 | 33 1/4 | 33 1/4 | -7 1/2 to 8 1/4 |
| May | 33 3/4 | 34 3/4 | 33 3/4 | 33 3/4 | -7 1/2 to 8 1/4 |
| July | 32 3/4 | 33 3/4 | 31 3/4 | 31 3/4 | -7 1/2 to 8 1/4 |

Sales Thru: 8:45 contracts.

Futures Prices

| | Open | High | Low | Close | Change | Season's High Low |
|------------------------------------------------|--------|--------|--------|--------|--------|-------------------|
| Oct | 253.00 | 253.00 | 253.00 | 255.60 | +1.00 | 267.00 231.90 |
| Jan 80 | 253.00 | 253.00 | 253.00 | 258.20 | +1.20 | 271.50 238.00 |
| Est. sales 1,025; sales Thru: 1,447 contracts. | | | | | | |
| GOLD (CMX)—100 troy oz.; \$ per troy oz. | | | | | | |
| June | 180.50 | 181.50 | 180.50 | 181.50 | - .50 | 195.70 144.00 |
| July | 181.30 | 181.30 | 181.30 | 182.40 | - .50 | 187.00 173.90 |
| Aug | 183.10 | 184.10 | 182.20 | 183.50 | - .50 | 198.70 146.10 |
| Oct | 185.60 | 186.30 | 184.90 | 186.20 | - .50 | 201.50 149.50 |
| Dec | 188.50 | 189.50 | 187.60 | 189.00 | - .50 | 204.30 153.50 |
| Feb 77 | 191.30 | 192.20 | 191.00 | 191.80 | - .50 | 207.00 161.80 |